

HOUSE BILL REPORT

ESSB 6896

As Passed House:

March 7, 2006

Title: An act relating to funding state budgetary reserves including an adjustment to the state expenditure limit.

Brief Description: Funding state budgetary reserves including an adjustment to the state expenditure limit.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Prentice, Doumit, Brown, Regala, Rockefeller and Kohl-Welles).

Brief History:

Committee Activity: None.

Floor Activity:

Passed House: 3/7/06, 51-47.

Brief Summary of Bill

- Creates the Pension Funding Stabilization Account.
- Makes appropriations from the General Fund to the Pension Funding Stabilization Account, the Student Achievement Fund, and the Health Services Account.
- Adopts additional employer rates to reduce unfunded liability in TRS and PERS Plans 1.
- Revises state expenditure limit laws by adjusting the limit adopted by the Expenditure Limit Committee in November 2005 upward for the appropriations in the bill.

Staff: Kristen Fraser (786-7148), Dave Johnson (786-7154) and David Pringle (786-7310).

Background:

The State of Washington, through its Department of Retirement Systems, operates several retirement plans for public employees, including employees of the state, local governments, and school districts. The State Investment Board invests the public pension funds. Actuarial valuations of current pension fund assets and liabilities have determined that the current assets and projected future employer and employee contributions and investment earnings of several state-funded retirement plans will not be sufficient to meet the future retirement obligations of

these plans. Over the next several fiscal biennia, these unfunded liabilities will require significant increases in the state's contributions to the retirement systems.

The Health Services Account was established by the Legislature in 1993 for the purpose of supporting the public health system and funding health services to low-income persons through such programs as the Basic Health Plan. The revenues to the account consist primarily of cigarette taxes, a portion of the state's share of the national tobacco litigation settlement, and other taxes. When these revenues have been insufficient to cover expected costs to the Health Services Account, the Legislature has made deposits from the state General Fund.

The Student Achievement Fund was established by I-728 in 2000. A portion of property tax revenues is deposited in the fund and is appropriated for distribution to school districts on a per-student basis for class size reduction, extended learning opportunities, educator professional development, pre-kindergarten assistance, and related building improvements.

Initiative 601, enacted in 1993, established a state General Fund expenditure limit and restrictions on state fee and revenue increases. Under the initiative, the annual growth in state General Fund expenditures is limited to the "fiscal growth factor" (the average rate of state population increase and inflation during the prior three fiscal years). The State Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. (Beginning in 2007, the fiscal growth factor will be based on the 10-year average growth in state personal income, and five additional funds, including the Health Services Account and the Student Achievement Fund, will be included within the expenditure limit.)

The state expenditure limit may be adjusted for several reasons. The limit is adjusted downward to reflect the extent to which actual General Fund expenditures in prior years are less than the maximum amount allowed under the limit. Other downward adjustments to the expenditure limit are required when state program costs or moneys are shifted out of the General Fund to other dedicated accounts. Upward adjustments to the expenditure limit occur if state program costs or moneys are transferred to the state General Fund from other accounts.

Initiative 601 also requires a two-thirds vote of each house of the Legislature to increase state revenues, such as a tax increase. The 2005 legislature suspended this requirement until June 30, 2007.

Summary of Bill:

The Pension Funding Stabilization Account (Account) is established for the purpose of making employer contributions to specified state-funded retirement plans, subject to legislative appropriation. The State Investment Board will invest moneys in the Account. New additional employer contribution rates are established for the purpose of reducing the unfunded actuarial liabilities of the Plans 1 of the Public Employees' Retirement System and

the Teachers' Retirement System. The State Actuary will take these additional pension contributions into account as part of a 3-year phase-in when recommending pension contribution rates to the Pension Funding Council for the 2007-09 biennium. For Fiscal Year 2006, \$350 million is appropriated from the General Fund to the Account.

For Fiscal Year 2006, \$200 million is appropriated from the state General Fund to the Health Services Account to provide fiscal stability for the account.

For Fiscal Year 2006, \$275 million is appropriated from the state General Fund to the Student Achievement Fund to provide fiscal stability for the fund.

The state expenditure limit for Fiscal Year 2006 is declared to be the limit adopted by the Expenditure Limit Committee in November of 2005, adjusted upward to include the appropriations to the Pension Funding Stabilization Account, the Health Services Account, and the Student Achievement Fund. Expenditures from the Pension Funding Stabilization Account are not considered to be a program cost shift under Initiative 601.

The authority of the Legislature to increase state revenues without a two-thirds vote is terminated on June 30, 2006.

Appropriation: Appropriations total \$825,000,000.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately, except for section 10, which takes effect July 1, 2006.

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.